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Rice Update

Report Categories:

Grain and Feed

Approved By:
Holly Higgins
Prepared By:
A. Govindan

Report Highlights:
Post revises MY 2009/10 rice production forecast downward to 82 million tons from the early August forecast of 88 million tons. This revision is due to further deterioration in the drought situation in several parts of the country. Domestic rice prices are expected to remain firm due to a significant decline in production and a higher minimum support price announced by the government. Larger wheat and rice stocks should help to narrow the supply/demand gap emanating from lower rice production in MY 2009/10 and help avoid imports in the near term.

General Information:

Rice production forecast further lowered

Post revises MY 2009/10 rice production forecast downward to 82 million tons from the early August forecast of 88 million tons. This revision is due to further deterioration in the drought situation in several parts of the country. This is 17 million tons below the MY 2008/09 record production of 99.2 million tons.

Continued poor rainfall distribution in several parts of the country during most of August (Figure 1) further worsened the drought situation in the country, with the rice crop taking the major hit. Two hundred and seventy eight districts in 11 states, mostly in Uttar Pradesh, Bihar, Assam, and Karnataka, have been declared drought-affected by the state governments [1] (out of the total 626 districts in the country). Most of the decline in rice production will be in the states of Uttar Pradesh and Bihar, which after a prolonged drought, is now facing floods in some parts. Rainfall distribution in the major rice surplus states of Punjab, Haryana, and Andhra Pradesh was also significantly below normal although better irrigation coverage in these states has mitigated production losses. Rice production in the predominantly rain-fed Chhattisgarh state, which in recent years has emerged as a major contributor of rice to the central government kitty, is also likely to be affected by below normal and late rains. Although the overall monsoon rains in Orissa (another major non-irrigated rice growing state) have been near normal, the distribution was highly skewed with poor rains in June followed by heavy rains and floods in July and again below normal rains in August. Furthermore, a vast tract in the state was infested by swarming caterpillar, which although under control, has resulted in some production losses. West Bengal, the largest rice growing state in India, also experienced a 22 percent rainfall deficit in the plains from June 1 to August 26, which will have a negative impact on rice production.

The government's progressive planting data shows a widening gap in planted rice area between this year and last year (as of August 21, 2009, planted area was approximately seven million hectares lower than the corresponding period of last year [2]). As the window of opportunity for planting *kharif* (fall and early winter harvested) rice is over in most states, the gap is likely to continue or even widen. At an average yield of 2 tons per hectare, the area decline alone would translate into a production loss of 14 million tons. On top of this, there will likely be further production declines due to moisture stress and pest/disease problems. Thus, this year's *kharif* rice production could decline by 16 to 18 million tons from last year's estimate of 84.6 million tons. Although all efforts will be made by the central and state governments to increase rice production in the *rabi* (spring/summer harvested) season, (which is confined mostly to irrigated areas in some eastern and southern states), the increase is likely to be modest due to reduced irrigation availability. Thus, overall rice production in MY 2009/10 is likely to be around 82 million tons, a 17 million ton decline from the record MY 2008/09 production of 99.2 million tons. This analysis is in line with the GOI's Finance Minister, who has stated that the decline in *kharif* grain production is likely to be 15 to 20 percent, or 17.5 to 23.5 tons. It is worth mentioning that under a similar rainfall distribution pattern in 2002, rice production in MY 2002/03 had dipped by 21.5 million tons from the previous years' record level.

Minimum Support Price hiked

The GOI recently hiked the minimum support price (MSP) of paddy (un-milled rice) for MY 2009/10 to Rs. 9,500 ($198) per ton for Common varieties and to Rs. 9,800 ($204) per ton for Grade A varieties. This is an effective increase of Rs. 500 ($10.4) per ton over the MY 2008/09 support price. Several major rice surplus states have expressed their discontent over the relatively small increase in the support price, particularly in a drought year, which could prompt the government to announce a bonus over the MSP during the harvest time (as was the case in MY 2008/09). The domestic retail price for common varieties of rice currently range from Rs. 15 to Rs. 22 per kg in major cities, about 20 percent higher than a year ago. In view of the likely sharp decline in production and the hike in the MSP for paddy, open market prices are likely to strengthen in coming months.

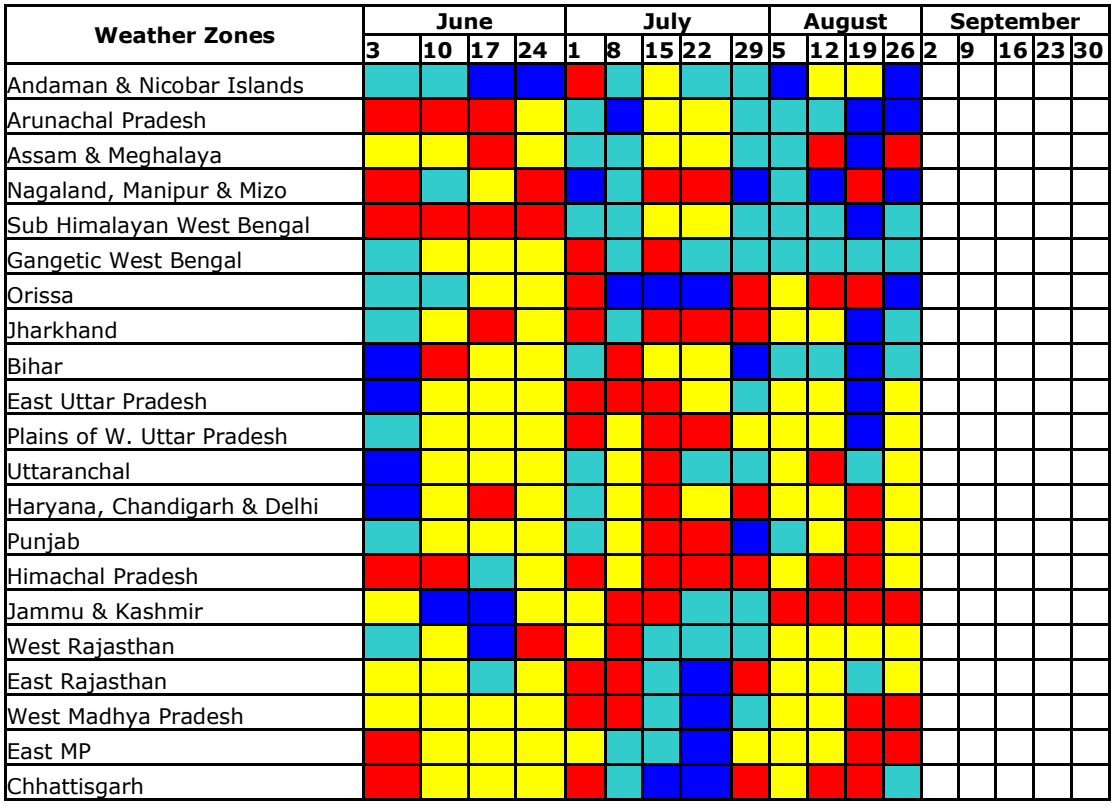
Larger grain stocks to provide some cushion

Thanks to a record government procurement of 32.8 million tons of rice in MY 2008/09 (Oct-Sep) and 25.3 million tons of wheat in MY 2009/10 (Apr-Mar), government-held grain stocks (as of August 1, 2009) increased to around 50 million tons (18.5 million tons of rice and 31.6 million tons of wheat) compared with 34.2 million tons (9.8 million tons of rice and 24.4 million tons of wheat) a year ago. These larger stocks should help to narrow the supply/demand gap emanating from lower rice production in MY 2009/10 and help to avoid imports in the near term. However, the challenge for the government will be to make these stocks available to needy people in drought affected areas at an affordable price. Furthermore, rice procurement in MY 2009/10 is likely to decline sharply due to lower production. With the absence of rains in September, fall wheat planting operations will also be in jeopardy in the central and western states due to poor soil moisture conditions. If this happens, the government will have to think of importing grains by early next year. It is also likely that the government will lower or eliminate the import duty on rice in order to encourage private imports of rice. The domestic rice shortage will prompt the government to continue the non-basmati rice exports ban indefinitely. However, there are reports that the government will lower the minimum export price of the mainly export-oriented basmati rice from $1,100 per ton to $900 per ton soon to encourage exports in response to increased competition from Pakistan.

[1] See: www.agricoop.nic.in/DroughtMgmt/currentdrought_270809.pdf

[2] See: http://agricoop.nic.in/ncfcweather/ncfcasAug-13-2009.pdf

Figure 1: Spatial and Temporal Distribution of 2009 Monsoon Rains



Gujarat Region																		
Saurashtra & Kutch																		
Konkan & Goa																		
Madhya Maharashtra																		
Marathwada																		
Vidarbha																		
Coastal Andhra Pradesh																		
Telangana																		
Raylaseema																		
Tamil Nadu																		
Coastal Karnataka																		
North Interior Karnataka																		
South Interior Karnataka																		
Kerala																		
Lakshadweep																		
Percent deviation from normal	**-35**	**-37**	**-51**	**-68**	**-29**	**-8**	**+6**	**+15**	**-18**	**-64**	**-56**	**-2**	**-5**					

Excess (>20%)		**Deficient (-20% to -59%)**	
Normal (+19% to -19%)		**Scanty (-60% to -100%)**	